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C O N F I D E N T I A L KUWAIT 001140

SIPDIS

STATE FOR NEA/ARP, EEB/IFD/OMA
TREASURY FOR VINOGRAD

E.O. 12958: DECL: 11/16/2018
TAGS: EFIN EINV ECON KU
SUBJECT: COURT ORDER SUSPENDS KUWAITI STOCK TRADING

REF: A. KUWAIT 1089
B. KUWAIT 1123

Classified By: A/DCM Oliver John for reasons 1.4 (b & d).

¶1. (U) On November 13, A Kuwaiti court ordered the Kuwait Stock Exchange (KSE) to suspend trading until November 17, when the court would consider a case filed by a small number of investors who have incurred losses on the KSE in recent months. The GoK has signaled its intent to appeal the decision. The court issued its injunction based on Articles 3, 4, and 6 of the Amiri Decree organizing the KSE. Article 3 requires the KSE to provide surveillance of the KSE emphasizing aspects of financial market development. Article 4 provides that securities trading shall be in accordance with conditions and rules determined by the Stock Exchange Committee. Article 6 provides for a market committee to set general rules and procedures for the KSE, including registering brokers, market surveillance, and ensuring that financial reports for listed companies are accurate. The KSE's total market capitalization has dropped approximately 30% since the beginning of the year, in comparison to approximately 50% for the Saudi bourse, the region's largest, and approximately 65% for the Dubai bourse.

¶2. (C) The GoK's public response to the court decision has been negative. Finance Minister Mustafa Al-Shimali described the decision as "dangerous" and warned that "consequences of this ruling would be dire." Commerce and Industry Minister Ahmed Baqer told local reporters that the GoK intended to appeal the verdict. Many of our private sector contacts have also complained that the decision made a mockery of Kuwait's economic and fiscal governance and would harm Kuwait's reputation in the long run, particularly if trading does not resume by November 17 or 18. The CEO of a software firm with sizeable USG contracts, noted that not even the Communist regimes in Hanoi and Beijing would intervene in market forces to this extent. A senior expat banker for a Kuwaiti bank expressed concern, noting that most of his bank's loan collateral was either shares or property. Shutting trading effectively invalidated this collateral. The CEO of a large logistics company took a more positive tack, noting that the KSE's internal controls were poor and that "a wasteful culture" ensured that people could make millions on illegal short sales and escape with only a slap on the wrist. To the extent that the judge's decision was based on this, he noted, the judge might not have had any alternative. He counseled patience until the next hearing, admitting that his company's shares were dual listed in Kuwait and Dubai so that the impact of the decision was limited.

¶3. (U) In a separate development, the GoK announced that it was establishing a bailout fund to assist Kuwait's many troubled investment firms. Media and other sources report that many, if not most of, Kuwait's 120 investment firms face sharp shortages in liquidity at best and insolvency at worst. The GoK has provided few details on the fund at this stage,

though local media report that the proposed fund will buy troubled assets from the investment companies.

¶4. (C) Comment: The GoK is facing a number of serious financial challenges, including heavy KSE losses, the Gulf Bank collapse (reftel), a stock market shut down, and a brewing solvency crisis for many of Kuwait's investment companies. The government has taken steps to mitigate Kuwait's financial problems, including guaranteeing all bank deposits, agreeing to bail out Gulf Bank, bolstering the KSE, with Kuwait Investment Authority money, and finally by setting up a bailout fund for troubled investment firms. Unfortunately, the GoK either does not appear to have a coordinated plan or is not communicating its plan effectively with the Kuwaiti public. Most of these steps have been reactive rather than proactive in nature. We also understand that details of these various bailout plans remain to be worked out. End comment.

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JONES